A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics

Private Equity Challenge - Maisons du Monde:
An omnichannel Equity growth story

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Abstract

This Work Project was developed by a group of Finance students and describes a hypothetic Private Equity deal, on a target company, Maisons du Monde. It it's an important player in the European furniture and decoration industry with strong competitive advantages and prospects of growth. Essentially, it was an early adopter of e-Commerce, thus currentçy has a very solid positioning in this fast-growing sector. Additionally, the company presents strong financials which provide a good base for an ambitious business plan, consisting of internationalization, a strategic acquisition and reinforcement of the position in current markets. Ultimately, this deal presents a strong potential LBO due to the competitive returns and low industry volatility.

Keywords

European furniture and decoration, Omnichannel approach, Internationalization, Strategic acquisition, LBO

Disclaimers

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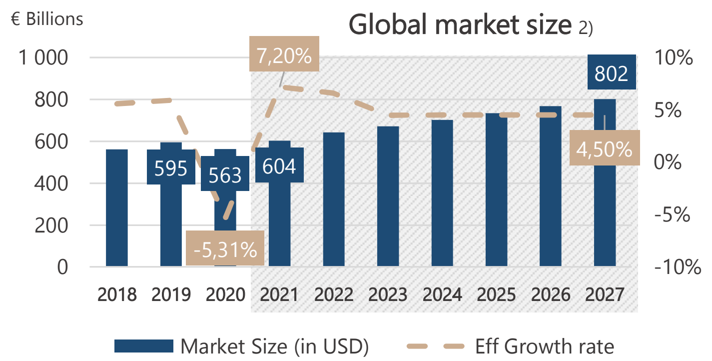
INDUSTRY OVERVIEW – MARKET SIZE & SEGMENTATION

Industry revenue took a hit in 2020 due to Covid-19 pandemic but is expected to recover fast in the upcoming years

Total furniture and decoration market size



The total **furniture and decoration industry's** global revenue was estimated at around **$595 Bn in 2019.** Considering the impact of Covid-19, the same market was estimated at approximately **$563 Bn in 2020**. By 2027, the market is expected to have revenues around **$802 Bn.**

The estimations reflect a decrease of **-5,3% in 2020,** followed by a 7,2% increase after Covid-19. The growth rates are expected to stabilize at **~4,5%.**

Reaction to recessions

The furniture & decoration industry **is tied to some macroeconomic drivers,** e. g. residential construction and refurbishment. However, in 2008, furniture retail stores' revenue in Europe dropped by ~ 8,70% while the building permits index fell by ~ 27,10% [4)], indicating the former to be connected but more resistant.

The industry has an estimated **unlevered beta of 0,75** [1)], which compared to other industries is lower than e. g. retail (general) 0.95 or engineering/construction 1.33.

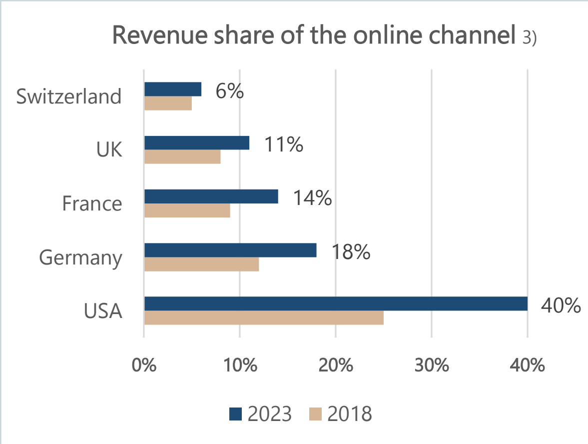
Market segmentation:

1) By geography in Bn USD

€ Billions	2018	Share in 2018	2025	Share in 2025	Revenue CAGR	Share Δ in %
North America	150,0	26,7%	177,1	24,1%	2,40%	-9,7%
Europe	132,0	23,5%	150,6	20,5%	1,90%	-12,8%
Rest of the World	279,7	49,8%	406,9	55,4%	5,11%	11,2%
Total Size	561,7		734,6			

- The most relevant geographic segments for Maisons du Monde are:
  - **Europe and North America:** jointly accounting for **$282 Bn** in 2018 (**50,2%**), these regions are characterized by slower paced revenue growth in comparison to the rest of the world, namely Asia. Hence, the share on global revenue is expected to decrease to 44,6%.

2) By channel



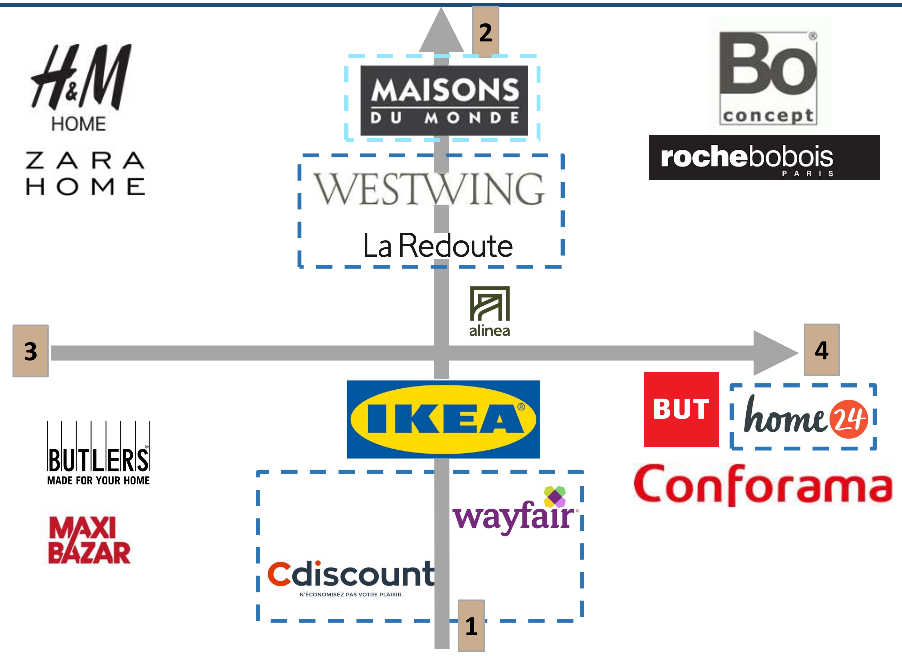
The online channel for the furniture and decoration industry is in different development stages in Europe and the USA:

- **In Europe**, the online revenue shares are low with **Germany** and **France** being expected at **~18%** and **~14%** in 2023.
- **In the USA**, the e-Commerce market in 2023 is expected to deliver **~40%** of revenue, coming from ~25% in 2018.

Notes: 1) Source: (Damodaran Database 2020); 2) Source: Statista. 4) Source: Statista

INDUSTRY OVERVIEW – KEY PLAYERS AND CUSTOMERS

Maisons du Monde is the European leader in the affordable inspirational segment of the Furniture and Decoration industry



1) **Functional** - mass production, small customization.
2) **Inspirational** - original unique pieces.
3) **Decoration** - small complementary pieces to furniture.
4) **Furniture** - sofas, beds, tables, chairs, desks, etc.

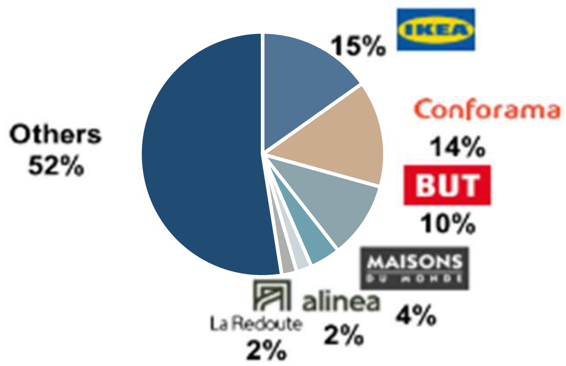
Pure online Player – customer facing activities fully based online

- The rising cost of production along with an **intense overseas competition** is causing consolidation and a shift to the retail side.
- Companies are attempting to **produce more with less** plant space and staff, improving materials supply, and enhancing distribution.

Segmentation

- **MdM's value proposition** sits on its **ability** to "inspire" customers through industrial-scale structure that delivers quality decoration & furniture items.
- Best way to understand MdM´s positioning in the market is **segmenting the industry** by **design typology** (inspirational vs functional) and by **product range** (decoration vs furniture).
- The **price factor** is already indirectly incorportated in the inspirational vs. functional trade-off relation where those pieces that require lower customization are usually priced cheaper.

French Furniture & Decoration Market [1)]



Customer Analysis

B2C

- **Baby Boomers** continue to represent **largest percentage** of **dollars spent** in the industry; however, **Millennials** make up the **largest percentage of buyers** in the market with a share of around 45%.
- **Generation Z**, who's purchase power is developing, values trends such as **innovation, creativity**, and is willing to pay a premium for **sustainable products**. Additionally, this segment's presence across social networks is impactful with potential to influence other generations' tastes and preferences.

B2B

- Commercial sales make up for around **30% of the furniture market** sales. These transactions are usually in **bulk**, the **price is negotiated.**
- B2B e-Commerce is essential for furniture manufacturers who typically sell to wholesale distributors and large organizations.
- A **flexible value chain** that can address specific B2B customer needs is a **strong competitive advantage** for entering this booming e-Commerce segment and targeting big buyers right away.

Notes: 1) Source: (Maisons du Monde – Capital markets day presentation 2019); 2) Source: OroCommerce Blog, 2019.

COMPANY OVERVIEW – BUSINESS MODEL

Maison du Monde's business model's main characteristic is the complementarity of its digital platform with an efficient store network.

Business model

- MdM creates **original universes for every house division**, using a multi-styling offer with a diverse range of furniture and decoration through a sustainable business model that is generating strong financial growth in both revenues and cash flows.

Product creation & Pricing

- MdM's team of stylists and designers focus in **identifying new trends** and **adapting them to decoration and furniture items**, using appropriate fabrics, materials and finishing's to optimize product design and the materials cost.
- For every product category, it offers items with a **wide range of price points** to reach several customers' budgets.

Suppliers & Supply chain

- The Group usually works with **third party suppliers** in which purchases are made on an **order-by-order basis**, instead of fixed term contracts. It also relies on **trusted partners to manufacture products** in accordance with MdM designs.
- MdM contains a broad range of local and international raw materials manufacturers, distributers and resellers.

Stores & Locations

- MdM stores are typically located in **high-traffic areas**, divided in **shopping- and city centers** and **rental park areas.**
- **All the stores are leased** through a commercial agreements that typically last for 3 years, with chance of renewal.

- New furniture collection once a year
- New decoration collections twice a year
- 19,1M registered customers; 5M active
- Core segment: B2C
- B2B is secondary

Key competitive advantages

- **Replicated business model internationally:** MdM has been successfully scaling its operational structures, using a **standardised store rollout process to all new locations**, always through leasing contracts. Due to the convergence of consumer preferences', MdM is able to use the **same collection in every country.**
- **Omnichannel approach:** Strategy that revolves essentially around the combination of stores and e-commerce. It benefits from the **single business format** across **all stores**, the detailed catalogues in physical and online versions and the investment in **e-Commerce platform** (which is a distribution channel, a showroom for the collections/ universes, a preparation for the store visit). MdM is leader in **e-Commerce** for home decoration and furniture **in France.**
- **Affordable price range:** MdM provides a wide range of original items presented in inspirational universes that are **design oriented and eye-catching for customers**, at an **accessible price**. This culminates in a **solid customer conversion rates** and revenue growth/resiliency.

Product mix[1]

Decoration

Decoration was the initial business focus of MdM containing home textiles, table ware, kitchen ware, mirrors, picture frames, etc. with an average selling price (ASP) of 12€.

Furniture

The Furniture business evolved fast within MdM. It includes furniture for the bedroom, living room, kitchen, junior furniture and outdoor furniture. (ASP = 226€)

Note: 1) For a more detailed product mix and SWOT analysis refer to slide 64 and 66.

HISTORICAL FINANCIALS – INCOME STATEMENT

Strong increase in revenue from international stores and e-Commerce activity makes MdM less dependent on its domestic market, France

MAISONS DU MONDE

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020
France - B&M	399,4	470,8	516,0	522,0	529,8	443,5	2,1%
International - B&M	181,0	244,6	288,5	342,4	397,2	332,5	12,9%
France – Online	72,6	95,1	112,0	129,5	145,9	208,6	23,5%
International – Online	48,4	74,7	99,3	124,4	158,1	185,0	30,8%
Revenue (B2C)	**701,4**	**885,1**	**1 015,7**	**1 118,2**	**1 231,0**	**1 169,5**	**10,8%**
Revenue (B2B)	22,0	24,6	21,0	24,9	29,7	45,3	15,5%
Revenue Total	**723,4**	**909,7**	**1 036,8**	**1 143,1**	**1 260,8**	**1 214,8**	**10,9%**
Brick & Mortar (B&M) plus attributable B2B							
Total B&M revenue	**598,7**	**735,2**	**821,1**	**883,6**	**949,3**	**806,0**	**6,1%**
Cost of sales	-186,5	-234,4	-267,0	-291,2	-320,1	-277,3	8,3%
Gross Profit	**412,2**	**500,8**	**554,2**	**592,4**	**629,3**	**528,7**	**5,1%**
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*
Variable external costs	-48,1	-67,6	-80,0	-89,3	-105,0	-100,4	15,8%
Lease expenses	-85,5	-97,8	-111,4	-117,9	-126,8	-118,8	6,8%
Direct Profit	278,7	335,3	362,8	385,2	397,5	309,4	2,1%
in %	*46,5%*	*45,6%*	*44,2%*	*43,6%*	*41,9%*	*38,4%*	*-3,8%*
e-Commerce plus attributable B2B							
Total Online revenue	**124,7**	**174,5**	**215,7**	**259,5**	**311,4**	**408,8**	**26,8%**
Cost of sales	-38,8	-55,6	-70,1	-85,5	-105,0	-140,7	29,4%
Gross Profit	**85,9**	**118,8**	**145,5**	**174,0**	**206,4**	**268,1**	25,6%
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*
Variable external costs	-28,0	-38,5	-46,5	-53,1	-63,6	-64,4	18,1%
Direct Profit	**57,9**	**80,3**	**99,1**	**120,9**	**142,8**	**203,7**	28,6%
in %	*46,4%*	*46,0%*	*45,9%*	*46,6%*	*45,8%*	*49,8%*	*1,4%*
General EBITDA							
Total Direct Profit	**336,5**	**415,7**	**461,9**	**506,1**	**540,3**	**513,2**	**8,8%**
Fixed costs (w/o leases)	-248,4	-296,9	-326,1	-360,4	-389,5	-374,1	8,5%
Adjstments to EBITDA	7,6	8,1	6,2	3,5	0,1	-7,1	N/A
Total EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**
EBITDA Margin	*13,2%*	*13,9%*	*13,7%*	*13,1%*	*12,0%*	*10,9%*	*-3,9%*

1 Revenues

- Following the implementation of the omnichannel strategy and expansion of operations, MdM's total revenue **jumped by 26%, in 2016**, its largest increase.
- MdM's growth results essentially from the continued investments, through new stores, product range expansion, IT systems, improved distribution channels, geographic presence and brand awareness development.
- **54% of MdM's revenues in 2019 were generated in France** (66% in 2015). However, international revenues grew substantially, reducing the group's dependence on its home country activity while tapping new opportunities in Europe.

2 Direct Profit and EBITDA

- Even decreasing, MdM's Gross margin was 40,7% higher than the average peer 3). Moreover, due to equal pricing there is no difference in gross margin between segments.
- The **Direct Profit margin for B&M** decrease essentially relates to fast growing Variable external costs e. g., Transportation costs.
- The e-Commerce growth is clearly favorable as its Direct Profit margin (49,8%) was about 30% higher than the B&M one.
- Finally, the total EBITDA margin decrease reflects an industry trend and the impact on Covid-19, especially on B&M.

Note: 1) For the cost analysis, the B2B segment was allocated to Brick and Mortar (B&M Revenue line) and e-Commerce (Online Revenue line); 2) the adjustments to EBITDA are individually imaterial thus detailed in slide 72; 3) Source: (TIKR Terminal)

HISTORICAL FINANCIALS – BALANCE SHEET

Healthy financial profile allows MdM to take on further initiatives to develop their business rather actively than passively

€ Millions		A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020
Cash & cash equivalents		76,4	60,3	100,1	57,2	94,5	437,4	41,8%
Inventories	1	102,3	171,1	159,7	241,2	210,8	173,6	11,2%
Receivables	2	45,9	50,1	80,5	83,5	63,4	121,0	21,4%
Other current assets		34,1	38,9	12,0	4,3	21,3	30,9	-1,9%
Non-current assets	3	721,5	750,4	745,7	825,1	1 488,3	1 477,1	15,4%
Total Assets		**980,3**	**1 070,8**	**1 098,1**	**1 211,4**	**1 242,8**	**2 240,1**	18,0%
Share capital	4	5,5	146,6	146,6	146,6	146,6	146,6	92,8%
Retained earnings		-24,2	227,4	181,2	248,9	292,8	347,4	
Total Equity		**17,4**	**497,0**	**525,0**	**590,6**	**632,5**	**609,6**	103,7%
Trade payables	5	151,8	192,9	238,1	250,9	232,8	319,3	16,0%
Other current liabilities	6	27,4	37,6	20,2	22,5	117,4	331,3	64,6%
Non-current liabilities	6	783,7	343,3	314,7	347,4	895,7	982,2	4,6%
Total Liabilities		**962,9**	**573,8**	**573,0**	**620,8**	**1 245,9**	**1 632,8**	11,1%

7 *€ Millions*	A2015	A2016	A2017	A2018	A2019
Convertible bond	394,8 (PEC)2)	-	173,6	177 791	182,1
Term loan	321,7 (HY-Bond)	247,3	49,4	49 633	49,8
Revolving Credit Facilities	-2,5	34,2	-1,0	9 275	-0,4
Other borrowings	-	-	-	373	0,9
Finance leases	2,0	3,4	3,2	4 559	-
Deposits and guarantees	0,4	0,4	0,4	471	0,8
Bank overdrafts	1,6	0,6	0,5	615	0,1
Cash and cash equivalents	-76,4	-60,3	-100,1	-57,2	-94,5
Net debt	642,7	225,7	125,5	185,5	138,7

Notes: 1) See transations of MdM in 2016 on page 65; 2) Preffered Equity Certificate ; 3) See full balance sheet on page 69.

Major Highlights

1 Inventories are mostly responsible for development of current assets from 2015 to 2019. Strong increase in inventories can be observed **along the opening of new stores and acquisitions (Modani 2018)**. Cash is subject to operating, investing and financing activities that were relatively volatile within the last 5 years.

2 Receivables from **advances paid to suppliers** and **receivables from suppliers** play the major role in this caption followed by receivables from customers. Although the total amount increased along business expansion, MdM **collects its money promptly.**

3 Non-current assets **grew along expansion** strategy of MdM through Capex into store and omnichannel development. Further, acquisitions add up to this position through **increases in Goodwill and PP&E.**

4 Through **merger** of MdM and its earlier parent entity of MdM, Luxco 3, plus **the IPO of MdM**, the shareholder's equity **increased significantly in 2016**. Afterwards, MdM S.A. was the parent entity.[1)]

5 Trade payables and social / tax payables are major positions. Position grew along MdM's business development. However, **MdM uses the strong position towards its suppliers to its advantage.**

6 In 2016, MdM did a **refinancing.** From then on, MdM financed itself through long- and short-term bank debt as well as with capital from a convertible bond. From 2017 onwards, **debt levels remained stable.**

7 Evolution of **net debt mirrors dependence on development** of in **6.** described **steady debt levels** after 2017 and **fluctuations in NWC** (seen through cash).

HISTORICAL FINANCIALS – COVID-19 IMPACT

MdM has huge exposure to the consequences of COVID-19 which highly affected their performance throughout 2020

MAISONS DU MONDE

Group's performance in H1 2020

Operating Activities	06/2019	06/2020	%
Revenues	1 564,0	488,9	-13,3%
France	307,5	252,1	-18,0%
International	256,5	236,8	-7,7%
EBITDA	2 97,1	68,8	-29,1%
EBIT	30,2	-7,4	
Net Income	-20,4	5,4	

1 H1 2020 **store sales declined 54,0%** with entire store **network gradually closed** for approx. 8-wees. Overall sales in H1 2020 were **only down by 13,3%** due to **strong online activity** (+51,0% in Q2/2020), better than expected performance of stores and continuously strong e-Commerce **demand post-lockdown.**

2 Operational expenses were primarily down through less staffing costs, but **overall costs did not decrease as much as revenues** due to higher logistic costs (French docker strike in Q1 2020) and higher D&A because of store openings in 2019.

3 Due to the **freeze of most supply orders**, inventory draw down had a clearly **positive effect on Operating CF** next to deferred rent payments and renegotiations of payments terms with suppliers.

Add. Figures	06/2019	06/2020
3 Operating CF	71,5	119,3
Investing CF	-35,2	-24,7
4 Financing CF	-63,0	248,7
FCFF	-11,4	42,7
Cash	29,9	437,4
Net debt	204,2	105,8

How MdM dealed and deals with Covid-19

PRESERVING LIQUIDITY

4 Undertaken measures to **reinforce liquidity:**

- Drew down immediately post-lockdown entirety of its **two revolving credit facilities of each €150 Mn.**
- Arranged French-state guaranteed term loan in the **amount of €150 Mn** at the beginning of June (1-year revolving maturity for 5 years).
- Negotiated **suspension of net debt leverage covenant** for Senior Credit Facility.
- In sum, the Group generated net cash **inflow of €248,7 Mn in H1 2020.**

OTHER MEASURMENTS

- Group **froze most supply orders** from mid-March to early May to preserve cash and selectively restarted thereafter.
- **Canceled/postponed** significant number of **CAPEX projects** (store openings and IT projects).
- Approx. 85% of staff in Europe placed on temporary unemployment, benefited from governments' support.
- Implementing a substantial OPEX-reduction program focusing on external fee reduction, marketing expenses, cuts and decrease of maintenance costs.
- **Postponement of commercial lease payments** with to the 3rd and 4th quarters for €13,7 Mn.
- **Dividend payment for 2019 was cancelled**

Note:. All information taken out of MdM annual report 2019.

COSTS OF MEASURMENTS

- In 2020 **approx. €2 Mn spent** on implementing social distancing measures.
- **Costs** for **preserving liquidity**, e. g. interest costs for draw down of credit lines, estimated to be **€1,4 Mn in A2020.**
- Large demand from online channels and the surprisingly strong post-lockdown activity with **less people that spent more money**, inventories were drawn down to sub-optimal levels (especially in furniture).
- Amount of cash not efficient but prepared for further lockdowns.

INVESTMENT THESIS – DEAL RATIONAL

Screening through all assessed requirements, MdM offers several starting points for remarkable value creation opportunities

Deal rationale for MdM

	Rational for the deal	Implications
1. Robust financial	➢ Profitable business model with **strong cash flow generation** and **above average** EBITDA-margin. ➢ Lease model allows for **relatively small CAPEX** while international expansion plans are pursued.	➢ Strong cash flow generation allows MdM to **fund its expansion plans by itself, through leases.** Good profitablitiy margins will let the **value** of MdM **increase through every new store** opening. ➢ Strong starting position.
2. New growth opportunities	➢ **Successful internationalization and acquisition** strategy in Europe and North America. ➢ **Expanding customer focus** and customer outreach through B2B and Franchise model.	➢ **Past growth opportunities** were identified and **neatly executed.** ➢ The market of furniture and decoration is not on peak and MdM has **huge untapped potential** in different geographies and customer segment.
3. Experienced people	➢ **Experienced C-management** in retail business, web business, finance, controlling. ➢ Successful **replacement of CFO** in 2019.	➢ Further growth opportunities will **support the management** to continue their already started path. ➢ Strong management that will take **lead during the investment.**
4. Omnichannel approach	➢ Offer in-store, online, catalogue experience. ➢ **3 channels connected**, easy delivery and fast purchase experience for their customers. ➢ Served as a **buffer in Covid-19 lockdowns.**	➢ **Online activity** is expected to **increase significantly.** ➢ Thus, a strong **omnichannel offering** where **different channels are combined** is essential, to add important value to customer experience so that sales are generated.
5. ESG / B2B	➢ Focus on ESG and CSR brought MdM **a reference position in the industry.** ➢ Leverage the B2B segment, increase the number of transactions and value per project.	➢ **Customer movement** is strong towards more sustainability and enironmentally conscious companies. ➢ Having a strong base on which MdM can further build on is **key regarding its competitors.**

INVESTMENT THESIS – VALUE CREATION STRATEGIES

Strategies that focus on international expansion through all sales channels, enable MdM to accelerate on its previous growth

Brick & Mortar

➢ Main goal:

Expand MdM's presence in existing and new countries through store openings and an integrated omnichannel

- **International expansion** of store network is **proven strategy** of MdM to strengthen **and increase market share, exploit growth opportunities** and improve its competitive positioning.
- **Diversify operations geographically** and raise brand awareness for omnichannel offer.
- Store expansion in countries in which MdM is already present and **new store openings in Canada** (Ontario and Quebec), to enter attractive Canadian furniture market with cultural similarities to France.

E-Commerce

➢ Main goal:

Become an e-Commerce leader in existing and new countries and improve a strong competitive positioning

- Enhance omnichannel approach through online services and thus, **increase overall profitability through cost-effective e-Commerce strategy.**
- E-Commerce success is **connected to brand awareness** generated **through wide store network.**
- Further **increase of traffic on our website** and engagement rates through integration of services.
- Simultaneously, **launch e-Commerce** platform in **Canada** and in promising **Polish market** by using existing logistic infrastructure (Germany and USA).

Diversification through Menina Design Group

➢ Main goal:

Diversify MdM's customer base, product offering and international presence through strategic acquisitions

- Offer broader variety of **high quality, unique and high margin products** in furniture segment in new locations, **widening MdM's customer base.**
- Acquisition of Menina Design would help MdM manifest and **rise its market position as a sophisticated furniture and decoration retailer.**
- **Synergies** through use of store network, logistic infrastructure and geographical locations.
- Increasing overall profitability through high margin products of Menina Design.

Supplementary value creation strategies

B2B - Business

➢ Main goal:

Establish MdM as a B2B brand and expand further growth opportunities

- **Increase addressable market** through B2B customers that represent market with high growth opportunities and relatively less competition.
- **Boost operational efficiency** using existing infrastructure and online possibilities.

Environmental, Social and Governance

➢ Main goal:

Improve competitive positioning through rising ESG awareness of stakeholders

- **ESG will affect success** and profitability of business **in the long-term.**
- Through inclusion of all stakeholders, MdM should work on every step in their value creation process to comply with ESG standards to be an ESG leader.

International | Market share | Growth | Stores | Online | Addressable market | Businesses | ESG | Stakeholder | Leader

INVESTMENT THESIS – FUTURE COVID-19 PLAN

Covid-19 is harmful for all physical retail businesses, however, MdM has chance to come out of this with a stronger competitive position

Impact of COVID-19 on furniture industry [1)]

Dimension	Disruption through a pandemic
Scope	Impacts everyone – workforce, suppliers, manufacturers, logistic providers, customers, competitors.
Acceleration	Spreads fast across geographies with severe cascading effects for companies with physical stores.
Period	Duration is unknown and brings uncertainty. Can last up to several months or even several years.
Workforce shortage	May result in quick increase of shortage (workforce) e. g. impact on supply, logistics, store operations.
Coordination with external parties	High degree of coordination necessary with public, government, law enforcement, healthauthorities.
Logistics and Infrastructure	Constrains availability of public and business infrastructure if severity of event increases (esp. across borders)

Notes: 1) Ernst & Young, 2020.

Strategy looking forward

- **Continue international expansion** through a structured store rollout.
- Replicate business model in **countries with similar trends**
- **Online sales** will become more **important** in the furniture industry
- Continue creating omnichannel experience is key to stay ahead.
- **Diversify** and strengthen **the product portfolio and customer base** through the acquisition of Menina Design for a stronger business model.
- **Expand addressable market** through B2B customers working in a high potential market. **Leveraging existing structure** for operational efficiency.
- **Defend position** as a leader in environmental / social responsibility and **focus on product/supply chain** + safety for customers and employees

COVID-19 adjustments

- Through a well thought internationalization strategy, MdM can still **diversify the regional risk and expand to new markets.**
- As seen, during the lockdowns, the online segments is a protection against COVID risk.
- An easy/intuitive online store with technology to help customers choose the right product, will help putting more weight on online sales.
- Covid-19 has shown that companies **with very specific service and product offering** can have added **risk in such situations.**
- Diversified product offerings also in the high-price range could prevent such a development and widens the customer base.
- Through an intensified **focus on B2B business,** MdM **increases its chances to recover faster** and be less dependent on individual customers.
- Professional **investors expect** that Covid-19 could be a **turning point in ESG investing.**
- Views on **risks** like **climate change** or **biodiversity loss can be shifted** further increasing awareness.

BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

Despite the decrease in Gross margin EBITDA is expected to increase as Fixed Costs will be better diluted due to Online revenue growth

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020	E2021	E2022	E2023	E2024	E2025	E2026	CAGR 2020-2026
Total Revenue	723,4	909,7	1 036,8	1 143,1	1 260,8	1 214,8	10,9%	1 376,3	1 531,4	1 716,2	1 957,7	2 126,5	2 261,7	10,9%
Brick & Mortar (B&M) plus attributable B2B														
Total B&M revenue	**598,7**	**735,2**	**821,1**	**883,6**	**949,3**	**806,0**	**6,1%**	**946,6**	**1 038,9**	**1 154,3**	**1 320,1**	**1 403,4**	**1 435,0**	**10,1%**
Cost of sales	-186,5	-234,4	-267,0	-291,2	-320,1	-277,3	8,3%	-332,8	-373,2	-423,7	-495,1	-537,8	-561,9	12,5%
Gross Profit	**412,2**	**500,8**	**554,2**	**592,4**	**629,3**	**528,7**	**5,1%**	**613,8**	**665,7**	**730,6**	**825,0**	**865,5**	**873,0**	**8,7%**
In %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*	*64,8%*	*64,1%*	*63,3%*	*62,5%*	*61,7%*	*60,8%*	-1,2%
Variable external cost	-48,1	-67,6	-80,0	-89,3	-105,0	-100,4	15,8%	-108,5	-116,3	-124,7	-134,0	-143,5	-160,6	8,1%
Lease expenses	-85,5	-97,8	-111,4	-117,9	-126,8	-118,8	6,8%	-121,7	-134,5	-149,0	-162,8	-172,5	-176,9	6,9%
Direct Profit	**278,7**	**335,3**	**362,8**	**385,2**	**397,5**	**309,4**	**2,1%**	**383,6**	**414,9**	**456,8**	**528,2**	**549,6**	**535,5**	**9,6%**
In %	*46,5%*	*45,6%*	*44,2%*	*43,6%*	*41,9%*	*38,4%*	*-3,8%*	*40,5%*	*39,9%*	*39,6%*	*40,0%*	*39,2%*	*37,3%*	-0,5%
e-Commerce plus attributable B2B														
Total Online revenue	**124,7**	**174,5**	**215,7**	**259,5**	**311,4**	**408,8**	**26,8%**	**429,6**	**492,6**	**561,9**	**637,6**	**723,1**	**826,7**	**12,5%**
Cost of sales	-38,8	-55,6	-70,1	-85,5	-105,0	-140,7	29,4%	-151,1	-177,0	-206,3	-239,2	-277,1	-323,7	14,9%
Gross Profit	**85,9**	**118,8**	**145,5**	**174,0**	**206,4**	**268,1**	**25,6%**	**278,6**	**315,6**	**355,6**	**398,5**	**446,0**	**503,0**	**11,1%**
in %	*68,9%*	*68,1%*	*67,5%*	*67,0%*	*66,3%*	*65,6%*	*-1,0%*	*64,8%*	*64,1%*	*63,3%*	*62,5%*	*61,7%*	*60,8%*	-1,2%
Variable external cost	-28,0	-38,5	-46,5	-53,1	-63,6	-64,4	18,1%	-68,5	-73,9	-79,5	-85,4	-92,2	-92,6	6,2%
Direct Profit	**57,9**	**80,3**	**99,1**	**120,9**	**142,8**	**203,7**	**28,6%**	**210,1**	**241,7**	**276,1**	**313,1**	**353,8**	**410,4**	**12,4%**
in %	*46,4%*	*46,0%*	*45,9%*	*46,6%*	*45,8%*	*49,8%*	*1,4%*	*48,9%*	*49,1%*	*49,1%*	*49,1%*	*48,9%*	*49,6%*	-0,1%
Total EBITDA														
Fixed cost (w/o lease)	-248,4	-296,9	-326,1	-360,4	-389,5	-374,1	8,5%	-401,0	-421,8	-452,8	-492,5	-519,5	-551,7	6,7%
Adjustments	7,6	8,1	6,2	3,5	0,1	-7,1								
Total adjusted EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**	**192,7**	**234,8**	**280,1**	**348,7**	**383,9**	**394,2**	**20,0%**
EBITDA Margin	*13,2%*	*13,9%*	*13,7%*	*13,1%*	*12,0%*	*10,9%*	*-3,9%*	*14,0%*	*15,3%*	*16,3%*	*17,8%*	*18,1%*	*17,4%*	8,2%

- **Revenues**: are expected to be mostly influenced by the Online segment
- B2B: The smallest but fastest growing segment. Its expected to account for **7,1% of revenue** by 2026 (3,7% in 2020) by tapping the hospitality industry in France, namely hotels.

- Brick & Mortar: by 2026, it will be **63,4% of revenues** (66,4% in 2020); essentially growing through the increased number of stores.
- e-Commerce: with **36,6% of revenue** by 2026 (33,7% by 2020) it will double in size due to the larger user base.

- **Cost of sales:** are expected to grow faster than revenue due to increased pressure from suppliers and sustainability concerns.
- **Gross profit:** Will continue to increase as the increase in revenues overcomes the effect of decrease in cost of sales.

- **Fixed Costs:** will be better diluted through increases in online revenue.
- **Lease expenses:** its slower growth will result in its ratio to B&M revenue be 12,6% in 2026 (13,4% in 2019).

Legend: 2026 - Exit year

BUSINESS PLAN – GENERAL OVERVIEW - FINANCIALS

Through operational improvements and NWC stabilization MdM will be able to improve its FCFF generation yearly until exit

Free Cash Flow to Firm plan

€ Millions	A2015	A2016	A2017	A2018	A2019	A2020	CAGR 2015-2020	E2021	E2022	E2023	E2024	E2025	E2026	CAGR 2020-2026
EBITDA Brick & Mortar	78,9	100,8	107,6	106,3	99,7	48,1	-9,4%	101,8	122,1	145,0	188,3	198,1	171,3	23,6%
EBITDA e-Commerce	16,8	26,0	34,4	43,0	51,2	83,9	37,9%	90,9	112,7	135,1	160,4	185,8	222,9	17,7%
EBITDA - Menina Design	0,0	0,0	0,0	0,0	0,0	0,0		2,5	2,9	3,4	4,0	4,7	5,5	N/A
Total Adjusted EBITDA	**95,7**	**126,9**	**142,0**	**149,2**	**150,9**	**132,0**	**6,6%**	**195,2**	**237,8**	**283,6**	**352,8**	**388,6**	**399,8**	**20,3%**
EBITDA Margin	*13,2%*	*13,9%*	*13,7%*	*13,1%*	*12,0%*	*10,9%*	*-3,9%*	*14,2%*	*15,5%*	*16,5%*	*18,0%*	*18,3%*	*17,7%*	*8,4%*
D&A	-25,4	-29,7	-32,0	-36,4	-38,9	-20,6	-4,1%	-33,6	-34,9	-40,4	-43,6	-47,9	-52,2	16,7%
Gross CF	**71,5**	**93,4**	**104,1**	**110,4**	**112,3**	**93,7**	**5,5%**	**139,6**	**167,9**	**199,8**	**246,3**	**271,3**	**280,1**	**20,0%**
- Δ NWC	3,6	-31,9	26,2	-71,7	32,3	66,2	78,7%	-15,7	-2,5	-3,2	-4,2	-5,2	-6,0	N/A
- Capex	-43,9	-52,0	-49,4	-45,8	-60,9	-26,2	-9,8%	-35,1	-64,4	-74,6	-80,1	-70,6	-53,8	12,8%
- Δ Goodwill	0,0	0,0	0,0	-47,3	-6,8	-0,2	N/A	-27,5						
- Δ Intangibles	-5,0	-1,8	-6,2	-17,2	20,7	-3,0	-10,2%							
Free Cash Flow to Firm	**26,2**	**7,7**	**74,7**	**-71,6**	**97,7**	**130,5**	**37,9%**	**61,2**	**101,0**	**122,1**	**162,1**	**195,6**	**220,4**	**9,1%**
As % of EBITDA	*27,4%*	*6,1%*	*52,6%*	*-48,0%*	*64,8%*	*98,9%*	*29,3%*	*31,8%*	*43,0%*	*43,6%*	*46,5%*	*50,9%*	*55,9%*	*-9,1%*

EBITDA

- **Adjusted EBITDA:** is forecasted to grow at a faster pace due to the recovery after Covid-19 and the margin increase on the e-Commerce segment. The total EBITDA margin will increase from 10,9% to 17,7% reflects the higher weight of e-Commerce on the total MdM revenue.

- **Brick & Mortar EBITDA:** the sector's revenue will yield a relatively constant **EBITDA margin averaging 12,6%.**
- **e-Commerce EBITDA:** the margin is expected to increase from **20,5%** in 2020 **to 27,0% in 2026**. This is mainly due to the economies of scale achieved on the fixed costs and investments made, namely through the increase in the conversion rate.

FCFF

- **NWC:** stabilization is resulting in cash outflows. However, it will provide certainty to efficiently leverage MdM.
- **CAPEX:** During this period capex will **average 3,7% of revenue** with a **maximum of 4,6%** in 2023. It includes investments in new stores, IT systems (basis for online growth) and both expansion projects, i.e. Canada and Poland.
- **Goodwill:** has a relevant value in 2021 which relates to the **acquisition of Menina Design.**
- **FCFF:** is expected to grow at a slower pace than before. It will reflect **55,9% of EBITDA** in 2026, compared to 64,8% in 2019.

Note: The FCFF in this table does not include some effects, namely the tax shield resulting from the interest payments in the new capital structure.

Legend: 2026 - Exit year

BUSINESS PLAN – CAPITAL STRUCTURE | SOURCES & USES

Chosen capital structure represents highest debt level possible withouth breaching the Cash Cover covenant in investment period year

MAISONS DU MONDE

Capital Structure Sensitivities

	Structure 1	Structure 2	Structure 3	Structure 4	Structure 5
Term Loan A	0,8x	1,2x	1,0x	0,5x	0,92x
Term Loan B	0,65x	0,75x	1,2x	0,5x	0,5x
Subordinate Note	1,5x	1,5x	1,5x	1,0x	0,6x
Mezzanine	1,0x	1,0x	1,3x	1,0x	1,5x
Equity Contribution	5,4x	4,9x	4,3x	6,3x	5,8x
Total Sources of funds	9,3x	9,3x	9,3x	9,3x	9,3x

- **Structure 5** predicts a leverage multiple of 3,5x. It allows the combination of competitive returns without covenant breaches.
- **Lease liabilities** are not refunded at entry. Hence, when considered the multiple of debt rises to **6,6x**. For comparison, in 2019, about 60% of US PE deals used less than 7x leverage [1].

Structure	Leverage (w/o leases)	Leverage (w\ leases)	MM	IRR
1	4,0x	7,0x	2,9x	19,4%
2	4,5x	7,5x	3,2x	21,2%
3	5,0x	8,0x	3,4x	22,6%
4	3,0x	6,0x	2,7x	18,2%
5	3,5x	6,6x	2,8x	18,6%

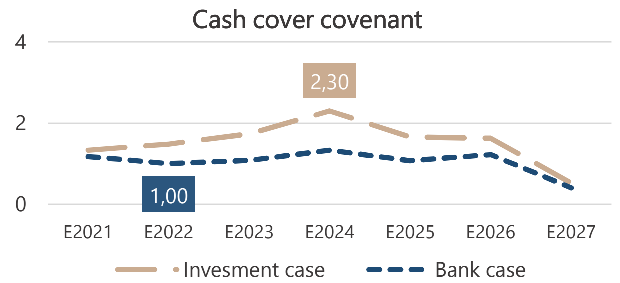
Note: 1) Source: (Bain & Company 2020)

- Out of 5 possible capital structures, **Structure 5 is selected.**
- All 5 would deliver IRR >18,0% and Money Multiples >2,5x. However, **only 4 and 5 are compliant with the cash cover** covenant, showing that structure 5 effectively maximizes debt for the proposed business plan.
- The breaches mostly relate to the ambitious expansion plan in all business segments, which limits the ability to take on debt.

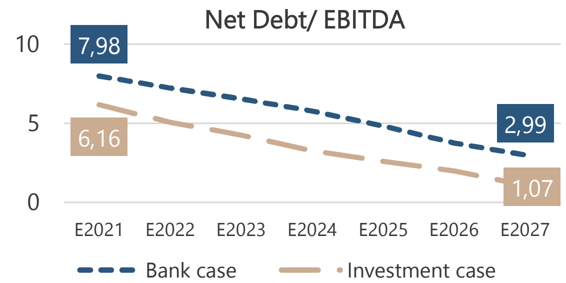
Leases

- As MdM leases all its stores the present value of the outstanding lease expenses are a large liability.
- If leases weren't considered, MdM's Net Debt/EBITDA would be close to zero and Net Debt would be negative in 2025 and 2026, due to the high amount of cash.
- However, not only are leases debt, but they are also a senior tranch, thus also limiting the amount of further senior debt.

Debt Covenants – Bank and Investment case



- Bank case: on average it is 22% lower than the Investment scenario (28,4% on lowest point).
- Structure 5, at its lowest point with the bank case has a cash cover of 1,001x.
- **Lowest headroom on investment case is 33% in 2022.**

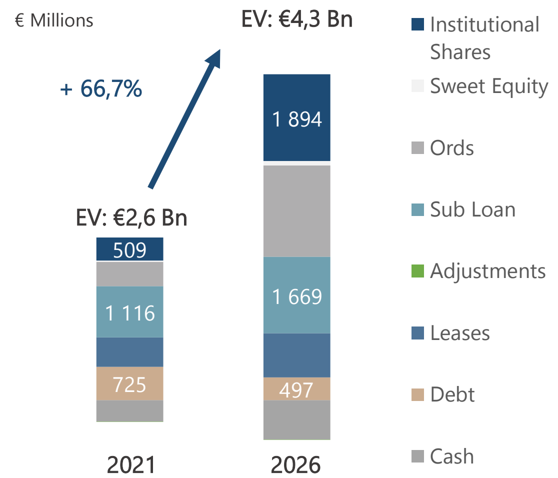


- Even considering the leases, Net Debt/ EBITDA covenant will most likely not be a significant issue as MdM has a **solid cash position** (30,9% of total debt in 2020).
- Nonetheless, the lowest headroom between cases is 29,5%.

EXIT AND RETURNS – LBO MODEL (1/2)

MdM's EV is forecasted to grow by 66,7%. This will provide IRRs of 19,5% and 46,1% for fund and management, respectively

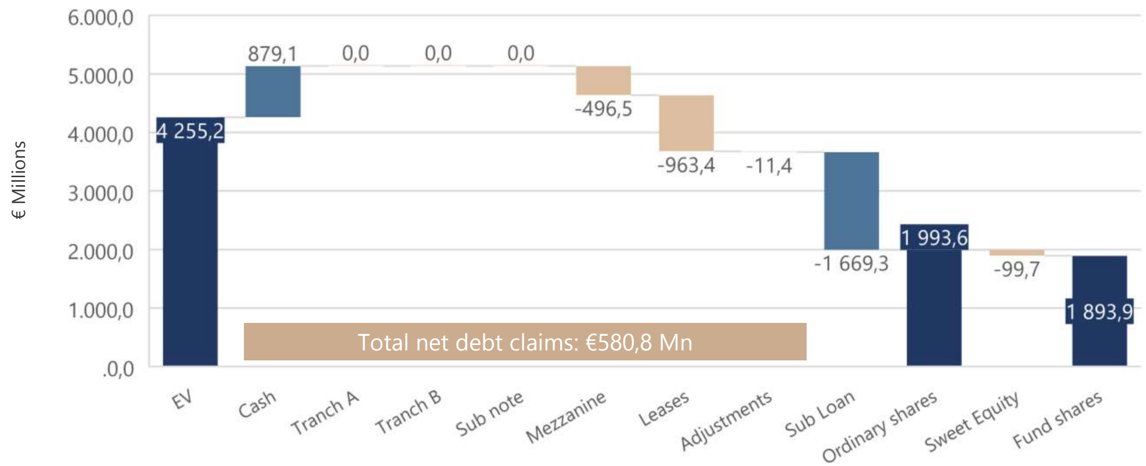
Evolution of EV



- **Enterprise value:** MdM's valuation increase is essentially due to **operational improvements**, namely in EBITDA. Multiple arbitrage was not considered.
- **Equity (in %):** is forecasted to change from **64,7%** to **86,1%** by exit. This result depends on MdM's ability to withstand the injected leverage, as demonstrated in the capital structure.

Note: Both EVs are estimations at the given year, in the event of selling as run-rate EBITDA is used.

Exit waterfall



In % of EV at exit	Net Debt:	Sub Loan:	Sweet Equity:	Fund shares:
	13,7%	39,2%	2,4%	44,8%

- **Leases:** are a very particular aspect of a PE deal in a retail industry. In MdM's case these are forecasted to grow by 49,4% to a value of €963,4 Mn by 2026. However, their weight on EV is expected to decrease from 25,3% in 2021 to 22,8% in 2026.
- **Debt structure and repayment:** by 2026, since both senior debt lines and the subordinated note will have been repaid in 2024 and 2025, only the Mezzanine tranche will be outstanding representing 11,7% of EV, respectively.
- **Exit:** planned exit year is 2026 after a holding period of 6 years, with an exit run-rate EBITDA of about €481,1 Mn and an EBITDA multiple of 8,8x leading to an EV of €4.255 Mn.

Institutional and Management Return

Exit year	E2026
Entry Equity	10,3
Exit Equity	99,8
Management Returns (IRR)	**46,1%**
Management Returns (MM)	**9,7x**
Entry Equity	1 224,9
Exit Equity	3 563,2
Institutional Returns (IRR)	**19,5%**
Institutional Returns (MM)	**2,9x**

- **Management:** will receive an MM of 9,7x as a reward for the large investment required.
- **Fund returns:** the 2,9x total MM is strong as PE deals in consumer related sectors averaged 2,0x between 2010-18 [1].

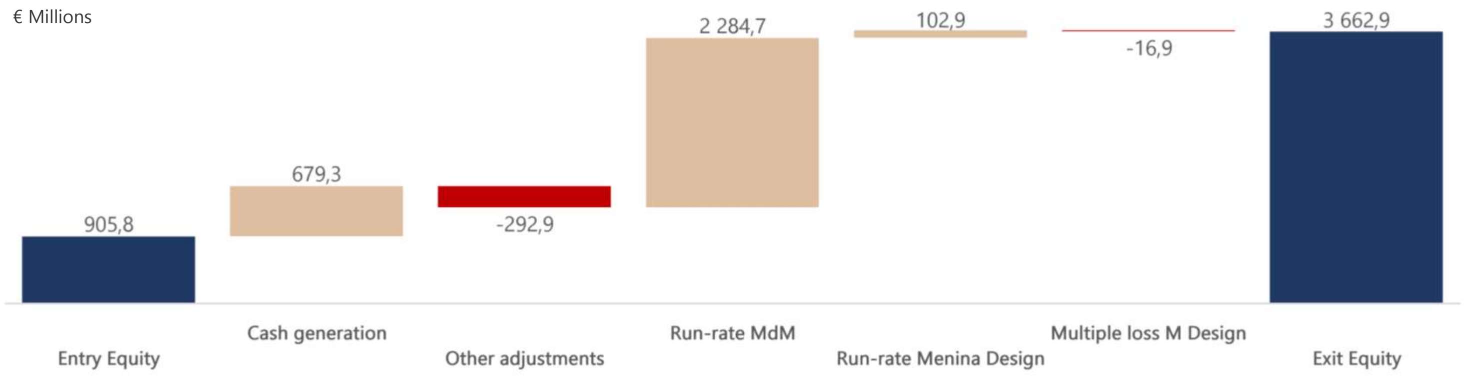
1) Source: Global Private Equity Report 2020, Bain & Company

EXIT AND RETURNS – VALUE CREATION BREAKDOWN

Growth in EBITDA margin due to strong e-Commerce projections and organic growth are mainly responsible for strong value creation

MAISONS DU MONDE

Value creation breakdown



Return on Entry Equity	0,7x	-0,2x	2,5x	0,1x	-0,02x	3,2x

- **Total value creation:** depends mostly on the **Business Plan's success** MdM's EBITDA growth will account for **80,0% of the generated returns.**
- **Cash Generation:** is a relatively small portion of value with 17,5% since the amount of debt at entry was low due to the amount of Leases.
- **Other adjustments:** account for **-10,3% of the value creation** of which 102,8% are **Lease liabilities.** Even if directly reducing Equity, this form of debt results in a much lighter capital intensity ratio, thus allowing an aggressive expansion strategy and creating value by reducing the required capex of opening stores.

Segmentation of Run-rate EBITDA growth

Maisons du Monde	Value created	Return on Entry Equity	% of Total Value created
Revenue	1 006,3	1,1	35,2%
EBITDA Margin	1 313,2	1,4	46,0%
Run-rate adjustment	-34,8	0,0	-1,2%
Menina Design			
Revenue	63,7	0,07	2,2%
EBITDA Margin	5,2	0,01	0,2%
Run-rate adjustment	34,2	0,04	1,2%
Multiple loss	-16,9	-0,02	-0,6%

- **Maisons du Monde's value creation:**
  - **Revenue growth:** about 70% of this effect results from the **increase in e-Commerce revenue.** Moreover, Online revenue has a much higher impact on EBITDA with a margin 3x larger.
  - **EBITDA margin:** about 62% of this effect relates to the B&M margin increase from 6,0% to 11,% by exit.
  - **Run-rate adjustment:** on exit MdM's ratio of Run-rate/Actual EBITDA will be lower than entry, thus destroying value.
- **Menina Design's value creation:**
  - **Revenue growth:** The extra support MdM can give will allow Menina Design's revenues to increase by 6,3x.
  - **Run-rate adjustmet:** the **strong growth potential** is expected to allow the sell price to create value as the absolute difference between Run-rate and EBITDA will increase from entry to exit.
  - **Multiple loss:** As the acquisition will be done at a **premium** (10,6x EV/EBITDA vs 8,85x for MdM) a loss is expected.

EXIT AND RETURNS – EXIT OPTIONS AND POTENTIAL BUYERS

Exit through secondary sale is the preferred exit strategies. However, interest across all potential exit strategies is possible

Potential options	Upsides	Downsides	Potential buyers	Result
IPO	➢ Through IPO, MdM will be available for **broader investor range**, eligible for **ESG indexes** and **less dependent on single investors**. With good market conditions and strong strategy, IPO is **likely to generate the highest returns**. ➢ **Technological potential** of MdM through online channels and Rhinov could be strong **driver for stock price**, as it is for Wayfair or other pure online players. ➢ Future capital increases easier and faster.	➢ Would most certainly be the most **expensive and longest exit strategy** with the most involved parties. ➢ Process may be distracting to the management team regarding operating the business. ➢ Uncertainty of capital markets is a non-diversifiable risk that imposes threat of choosing wrong timing for an IPO. ➢ Clean exit is less likely, possibility of lock-up agreement.	EURONEXT	
Secondary Sale	➢ Usually, the **fastest, easiest and cleaner** exit option. ➢ MdM might be an attractive target for a fund or joint venture of funds that look for a company with strong cash flows and further growth opportunities. ➢ Secondary PE activity is at a high level due to the lack of good targets and the big amount of dry powder. ($1,5 Tn.[1])	➢ The **expected deal size** of MdM at the exit year of 2026 might be **too big for only one potential buyer.** ➢ Additionally, strong interest from strategic buyers might lead to higher entry multiples than the interested PE's would be willing to pay.	KKR The Carlyle Group – Global Alternative Asset Management BainCapital 3i	
Strategic Sale	➢ Industry has several big players in which MdM's business model would fit perfectly. ➢ Generally, **strategic sale delivers higher EBITDA multiples**. ➢ Potential **synergies** could attract strategic buyers. ➢ Potential buyer could be strong player from Asia/America trying to buy **exposure into European Furniture industry** or strong B&M player without capable e-Commerce channel.	➢ Main challenge is to find a buyer that has the financial resources to buy MdM. ➢ Additionally, due to MdM's huge store network in Europe, every possible transaction will most likely be subjected to **approval by Competition and Markets authority**. ➢ Moreover, cooperation of management is unlikely. ➢ Strategic sales are often paid in stock instead of cash.	Ashley HomeStore IKEA XXXLutz	

Notes: 1) Source: Pitchbook, 2020, "What is dry powder in private equity?.

INVESTMENT COMMITTEE PAPER

PRIVATE EQUITY CHALLENGE

JANUARY 2021
MSc in Finance

INDIVIDUAL

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Disclaimer:
This paper was solely developed for academic purposes, using publicly available information and information made available directly by the company.

INDUSTRY OVERVIEW – PROFILE & KEY TRENDS

MAISONS DU MONDE

Furniture & Decorations industry is mostly characterized by having high competitive rivalry and impacted by several new trends

Porter's 5 Forces

Bargaining power of suppliers

- **Large number of small suppliers** of manufactured furniture, mostly in Asia, results in retailers taking a **long time to pay** their **suppliers**.
- Manufacturing is often **vertically integrated**, typically high-end products.

Low

Threat of substitutes

- "**Functional**" **segment** is a low-cost substitute which can be a threat, namely during recessions.
- **Innovation is not a major concern** as furniture needs are not expected to change substantially.

Medium

Competitive rivalry: High

Bargaining power of customers

High

- Very fragmented industry on retail side.
- Online platforms plus **low cost of switching** fuel customers to have **low loyalty** levels towards brands.
- Contracted revenue is not common as sales are mostly **B2C**.

Threat of new entrants

High

- **Costs of entry are low**, shown by number of small retailers.
- Pure online players have lower capex needs.
- However, it is very costly for smaller players to increase their market share.

Key industry trends [1]

Development of digital platforms

- **E-Commerce:** As a trending **sales channel.**
- **Social Networks:** As creators of **customer traffic** and **brand awareness.**
- **Showing Collections:** Websites allow customers to search before buying, purchases often happen in-store **(Omnichannel approach).**

Eco-friendly & sustainable furniture

- **Materials:** Customers are growing concerns about the **sustainability of materials.** Preferences are tending towards bamboo or recycled wood.
- **Business practices:** Companies are more demanding in terms of the practices they and their suppliers use. Requiring suppliers to be audited is a common demand.

More flexible work and homespaces

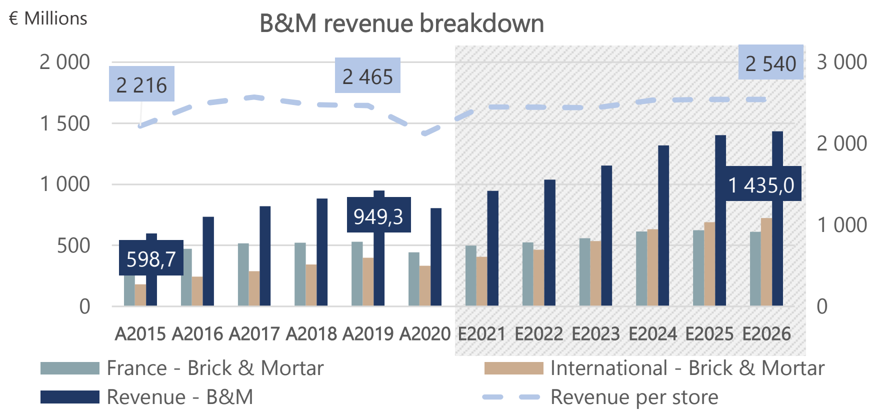
- **After Covid-19:** Customers are becoming more demanding with their **homes and home offices** which enhances refurbishment needs.
- **Office designs:** The old cubicles are no longer in fashion as **office design** is becoming more important.

Notes: 1) Source: (Market research 2020)

BUSINESS PLAN – REVENUE FORECAST | BRICK AND MORTAR

Store network expansion is characterized through extensive Capex investments, increased store efficiency and a new market entrance

Revenue forecast: Brick and Mortar (B&M)



CAGR 2020-2026
Total revenue: 10,1%
France: 5,5%
International: 13,8%
Revenue/ store: 3,1%

- The drivers behind the **Brick & Mortar revenue CAGR** are:
  - **Expansion of store network:** predicts opening of 159 stores, i. e. a **final number of 525**. The main aspects of the strategy are: **1)** cash flow should be preserved for returns and deleveraging, hence capex is only spent if covenants allow it; **2)** the bulk of openings (138 stores) will be done until 2025 prioritizing the International segment to allow stores the needed time to ramp-up.
  - **Revenue per store:** considers store ramp-up and the typology of stores (i.e city enter, retail parks and malls). As such, its growth reflects the **increased store maturity/efficiency** but also shows that the major growth driver is the size of the store network.

Brick & Mortar – Store network expansion

Number of stores	A2015	Net openings	A2019	Net openings	A2020	Net openings	E2026
France	193	40	233	-6	227	24	251
International	69	74	143	-4	139	135	274
Italy	30	18	48	0	48	19	67
Spain	12	15	27	0	27	29	56
Belgium	15	9	24	-1	23	12	35
Germany	8	3	11	-1	10	25	35
USA (with Modani)	0	20	20	-2	18	29	47
Canada	0	0	0	0	0	9	9
Other	4	9	13	0	13	12	25
Revenue per store	**A2015**	**Net openings**	**A2019**	**Net openings**	**A2020**	**Net openings**	**E2026**
France	2 069,6	9,9%	2 273,6	-14,1%	1 953,5	24,4%	2 430,1
International	2 623,8	5,9%	2 777,6	-13,9%	2 392,0	6,5%	2 548,5

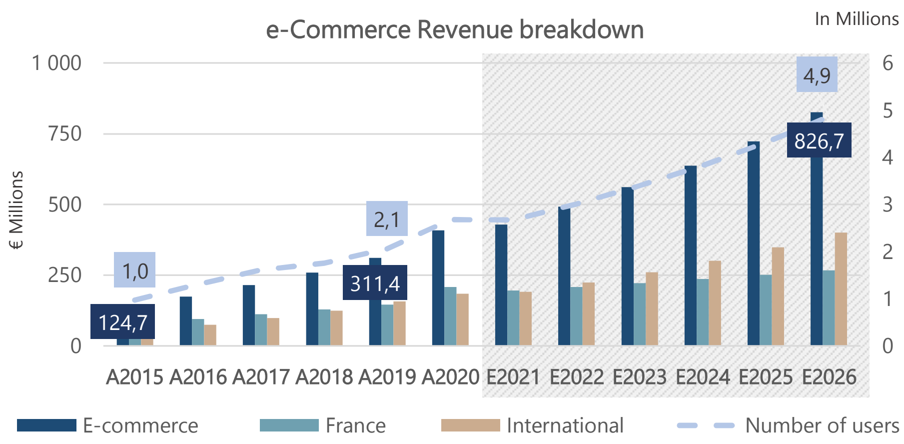
- The main criteria for **store network expansion** was to adjust past trends with attention to two factors: 1) geographic diversification; and 2) timing.
  - **France, 24 stores (16%) –** As the French store network increases it becomes less efficient, hence the goal of not over-increasing the exposure to the French market which will have **251 stores by 2026.**
  - **International, 126 stores (79,2%) – Germany, the USA, Spain and Italy** are the key regions due to their market and growth potential, and Business model fit. All international openings will be done by 2025.
  - **Canada, 9 stores (5,7%) -** Split between three years as in 2022, a pilot test is going to be run to understand if the store's ramp-up is as expected. If so, 7 further stores are to open in the 2 next years. This strategy is forecasted to bring **1,9% of the B&M revenues by 2026** with €25,4 Mn meaning a revenue per store of €2,83 Mn.

Note: The B2B revenue was allocated to both B&M and e-Commerce due to its operational dependence. For further detail on the store network development refer to slide 82.

BUSINESS PLAN – REVENUE FORECAST | E-COMMERCE

The strong revenue increase (+95,2% in 6 years) is essencially a result of the continuous increase in the number of users

Revenue forecast: e-Commerce



CAGR 2020-2026
Total revenue: 12,5%
France: 4,2%
International: 18,1%
# of Users: 10,4%

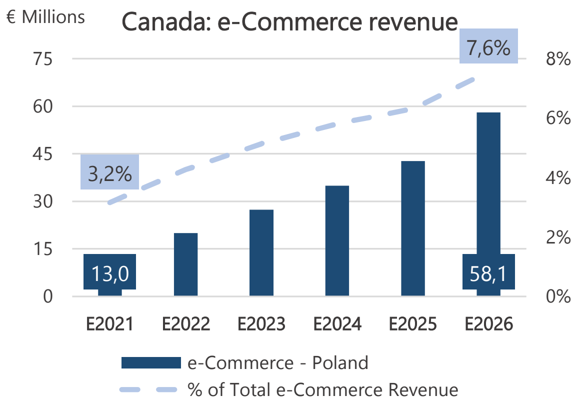
➢ The drivers behind the **e-Commerce's growth** are:

- Number of visitors: The focus on social network advertising and store network expansion is expected to increase the yearly visitors from 135,7 Mn in 2020 to **211,6 Mn in 2026**.
- Conversion Rate and Rhinov: The technological development and integration of Rhinov has a key role turning visitors into payers. It is expected to result in the increase of the **conversion rate to 2,3% by 2026** from 1,7% in the historic period.
- International segment: As MdM expands throughout Europe its potential consumer base increases with the development of brand awareness. As such, this segment will account for **52,2% of online sales in 2026** comparing to 47,0% in 2019.

e-Commerce – Expansion: Canada and Poland

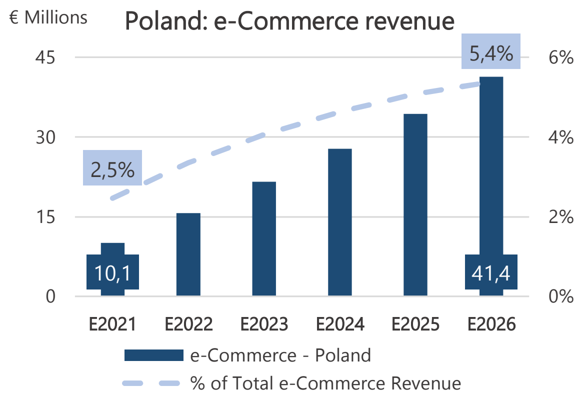
➢ Canada:

- The expertise, logistics and consumer knowledge of Northwest USA will be crucial for the strategy.
- Only in Ontario and Quebec for geographic constraints.
- Ultimately, MdM will have a **2,0% market share** in the **furniture and decoration online industry** in Canada.



➢ Poland:

- This expansion will lever the German store network and logistics operations to serve the country as there will be no stores in Poland.
- Similarly to Canada, the operation will result in a **market share on the online furniture and decoration industry of 2,0%** by 2026, up from 0,5% in 2020.

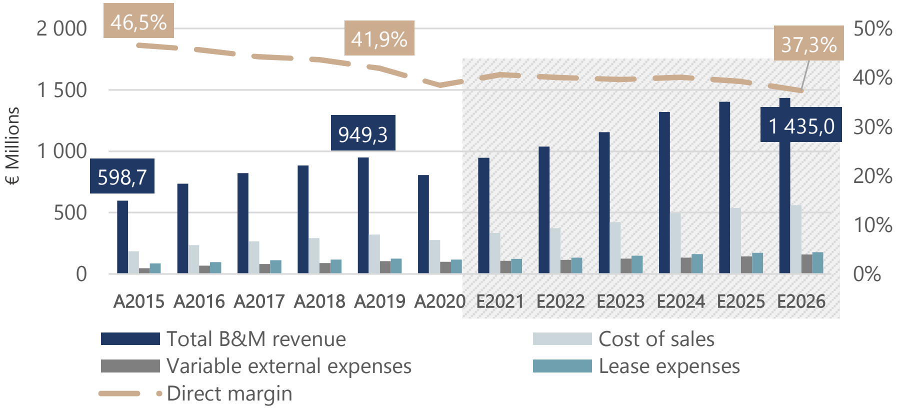


Note: The B2B revenue was allocated to both B&M and e-Commerce due to its operational dependence. For further detail on each expansion process, refer to slide 84.

BUSINESS PLAN – COST PLAN AND DIRECT PROFIT

While the Direct margin of Brick & Mortar is following the downward industry trend, the e-Commerce Direct margin is slightly rising

Direct Margin: Brick and Mortar



CAGR 2020-2026

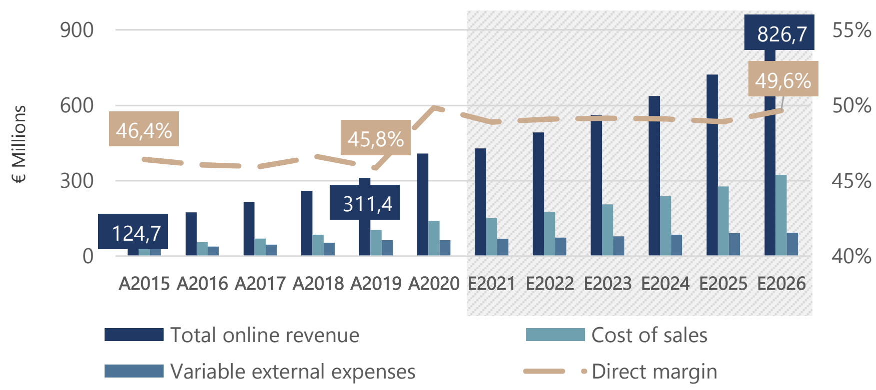
Revenue: 10,1%

Cost of Sales: 12,5%

Other costs: 7,5%

Direct Profit: 9,6%

Direct Margin: e-Commerce



CAGR 2020-2026

Revenue: 12,5%

Cost of Sales: 14,9%

Other VC: 6,2%

Direct Profit: 12,4%

Total Costs

- Cost of Sales: will grow slightly faster than Revenue resulting in the continuous **reduction of the Gross Margin** of the segment from **68,9% in 2015 to 60,8% by 2026**. The main reason is the unfavourable product mix trend due to increased sales of furniture, yielding a lower Gross Margin per product.
- Other costs: Variable external expenses i.e. Transportation and Temporary staff will follow the Cost of sales growth. Furthermore, although fixed, the Lease expenses are included in this caption and accounted for 12,3% of B&M revenue in 2026.
- Direct Profit/Margin: the margin of the B&M segment is expected to follow the industry and other, more mature players, in a **downward trend**. In MdM's case the Direct Margin will hit **the lowest value by 2026 with 54,1%** after 6 years of a **-0,4% CAGR**. The key reasons for this are increased pressure by sustainability concerns and strong industry trends which often result in the increased Cost of Sales and Other Variables costs.

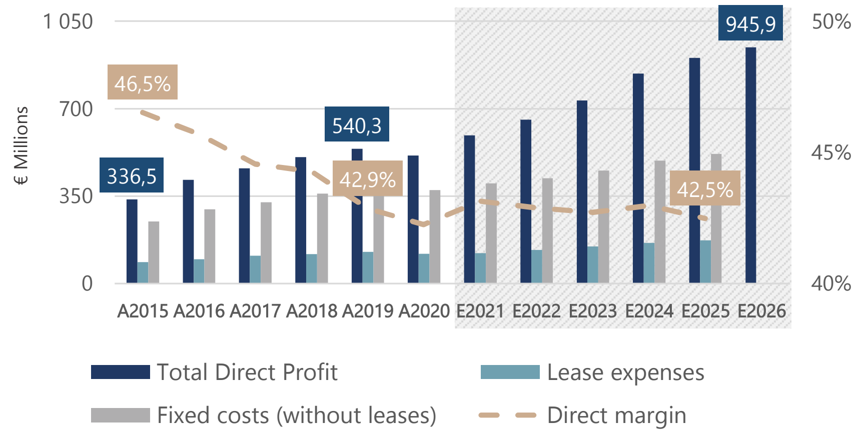
Direct Profit

- Cost of Sales: both segments benefit from the same items purchased or produced and the same pricing strategy the **Gross Margin is expected to be the same for both segments**. It will stagnate at 60,8% following the historic and forecasted periods, not only due to unfavourable product mix but also cost increases.
- Direct Profit: The key reason for the higher growth is the significantly **higher Revenue growth** along the lower and **slower growing Other Variable Costs,** plus the **non existence of Lease expenses**. In fact, these results fully reflect industry trends towards online furniture and decoration businesses.
- Direct Margin: is clearly **higher than the B&M segment**, essentially due to the Lease expenses required to operate the stores. The light capital intensity of the e-Commerce business is a significant competitive advantage and a way to further **increase return on store investment**, as stores are a key driver for online growth due to Brand awareness development. The **margin's CAGR is -0,1%** (2020-2026).

BUSINESS PLAN – FIXED COST PLAN AND EBITDA | Total

Aggressive expansion along with economies of scale inherent to the e-Commerce segment are responsible for a 17,4% EBITDA margin

Fixed Costs

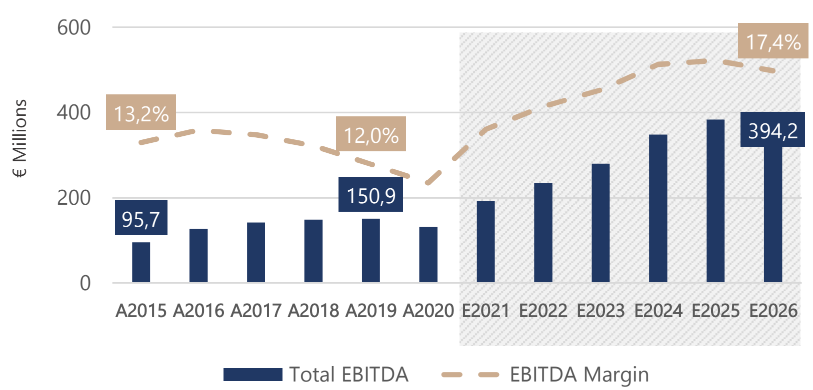


CAGR 2020-2026
Direct Profit: 10,7%
Direct margin -0,2%
Lease exp: 6,9%
Other FC: 6,7%

- **Total Direct Profit:** The combination of both MdM's segments results Direct margin by exit of 41,8% (including Lease expenses). Furthermore, with Variable Costs reflecting higher growth rates than Revenue the Direct Margin is expected to slowly decrease at a -0,2% yearly pace.
- **Lease expenses:** the major Fixed Cost of the B&M operation is a key target of efficiency improvement. As such, as stores become more mature and customer brand awareness develops **the Lease expenses as % of B&M revenue** will begin a **downward trend** with a CAGR of -3,5% in the forecast period (0,6% CAGR historic). These Economies of Scale are crucial in the increase of EBITDA margin.
- **Other Fixed Costs:** mainly composed of Personnel Costs, these are mainly allocated to the B&M segment representing the staff employed at stores. These costs will continue to increase but at a slower pace than the Direct Profit culminating in the strong **EBITDA growth in the forecast period**.

Note: The Lease expenses were included in the Direct Profit of B&M, thus also in the Total Direct Profit. Their inclusion in this analysis relates only to the fact that ultimately they are Fixed expenses.

EBITDA



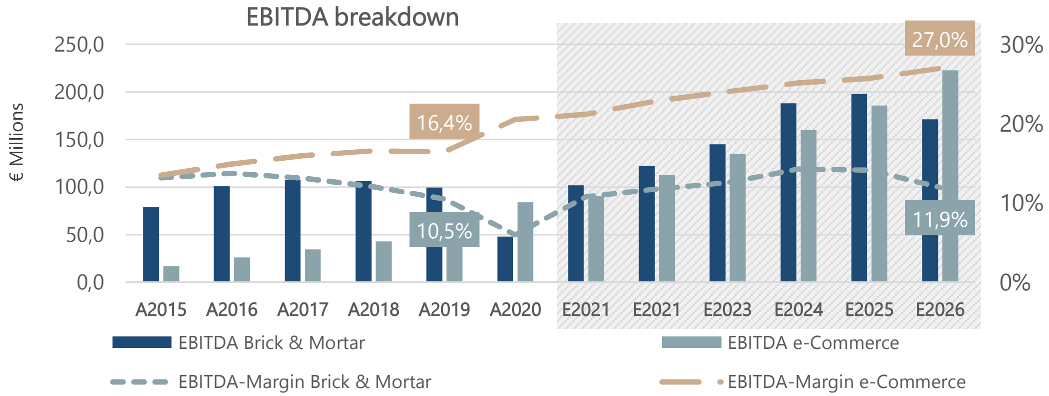
CAGR 2020-2026
EBITDA: 20,0%
Margin: 8,2%

- **EBITDA in (€ Thousands):** is expected to have a faster growth than in the historic period (12,0% CAGR from 2015 to 2019), essentially due to the addition of the **Canada and Poland operations**, the results of the **digital strategy** (i.e. the improvement of the number of visitors and conversion rate) and the **aggressive B&M expansion strategy, mainly to the USA, Germany and Spain**. Moreover, another reason for EBITDA growth is the **dilution of Fixed Costs**, namely regarding the online segment which is, by nature, an operation with low capital requirements.
- **EBITDA Margin (in %):** As a retail company, EBITDA margins are rather stable. However, the strategy applied is expected to result in an increase from **12,0% in 2019 to 17,4% by 2026**. The key reason for this increase is the increase in profitability of e-Commerce and B&M segments due to the aggressive expansion strategies to be implemented.

BUSINESS PLAN – EBITDA SEGMENTATION AND BREAK-DOWN

As the online sector's weight becomes more relevant, the low-capital intensity of e-Commerce will result in a strong EBITDA margin increase

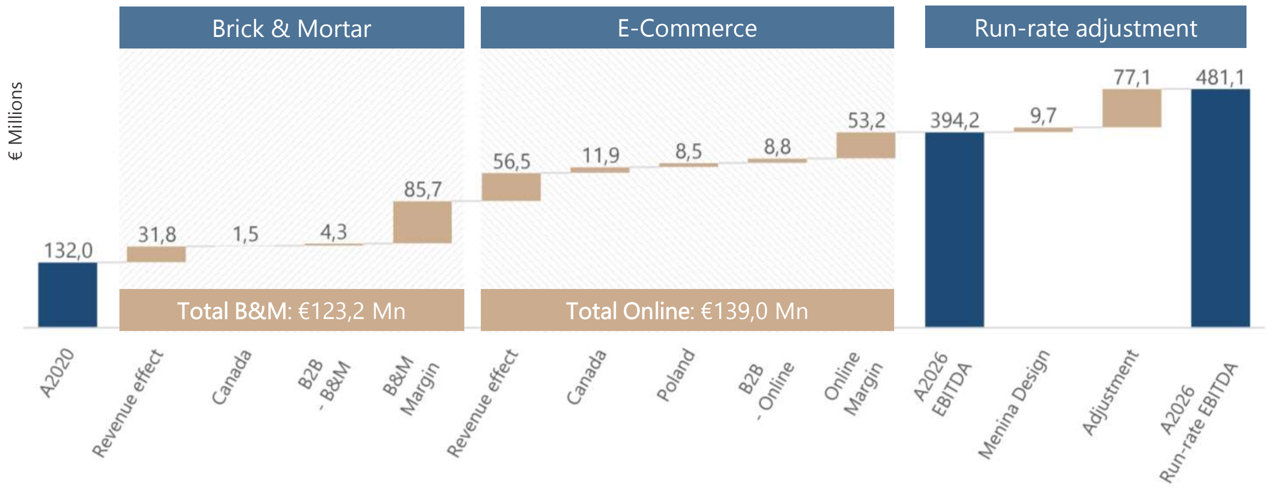
EBITDA by segment



- **Brick & Mortar (B&M):** As a retail channel with stores, the **Fixed Costs are much higher** than on e-Commerce mainly due to personnel costs (63,4% assigned to B&M), store leases (9,5% of total costs) and other external expenses (75,7% assigned to B&M). Furthermore, despite the **decrease in Gross Margin** the growth of **Fixed Costs slowed** mainly due to an increase in revenue per store.
- **e-Commerce:** The technological development allows for continued segment margin increase, essentially due to the **economies of scale** inherent to the segment. Additionally, the EBITDA is benefitting from the increases in the revenue drivers without a significant additional investment, i. e. Number of visitors – **brand awareness development,** and Conversion Rate – **integration of technology.**

Note: Fixed costs are difficult to accurately allocate, thus the assumptions made, in most cases allocation through revenue, should be target of extensive Due Diligence.

EBITDA bridge (in € thousand)



Key areas of EBITDA increase

- **Revenue Current Countries:** the total revenue impact from current countries accounts for **33,7%** (12,1% through B&M and 21,6% through e-Commerce).
- **Margin increase:** combined, the increase in margins for both B&M and Online represents 53,0% of the increase (32,7% in B&M and 20,3% in e-Commerce).
- **Expansion:** the aggregation of all expansion projects accounts for 8,4% of the increase. Menina Design represents 3,6% of the increase in run-rate EBITDA

APPENDIX: BUSINESS PLAN – BRICK & MORTAR | STORE NETWORK EXPANSION

The store network expansion strategy was thought taking into account the Timing, the Locations and the Number of stores per location to maximize EBITDA growth, diversification and efficiency of exit negotiations, namely by optimizing the proximity to the run-rate EBITDA.

Timing of the strategy

Results from the fact that 2021 will be a recovery year for retail due to the uncertainty of COVID-19, even if reduced by the arrival of vaccines.

- Post COVID (i.e. 2021): As uncertainty diminishes due to the vaccines and an increased MdM cash balance, the plan predicts 4 new stores in 2021 in Germany. These are significant as they will have plenty of time during the holding period to fully develop in terms of EBITDA and country brand awareness easing the ramp-up period for future stores.
- Future (2022 to 2026): The majority of the openings will be done between 2022 and 2024 (112 stores) allowing them to fully ramp-up. Finally, 2025 and 2026 were reserved mostly for countries with high brand awareness as these will ramp-up faster and have a more certain run-rate EBITDA, easing negotiations at exit.

Location

- Countries with MdM presence: Portugal and Luxembourg were barely considered due to their small size and existence of better opportunities;
- Countries without MdM presence (as of 2020): The only excluded country was the UK as the Investor Relations department of MdM revealed B&M operations failed there. Canada was excluded from the Geographic likelihood model and was added afterwards.

Weight by Country	Effective Openings
France	16%
Italy	13%
Spain	19%
Belgium	8%
Germany	17%
Switzerland	5%
Luxembourg	1%
USA (with Modani)	19%
UK	0%
Portugal	1%

Number of stores, by location

- Geographic likelihood (G.L.) model: is the development of the store network in line with MdM's past efforts. However, some numbers were adjusted to better fit our strategy of geographic diversification and to provide better value for money. The geographic likelihood percentage indicates the % of store openings during the holding period in a single country.

- General assumptions:
  - The net openings of 2020 were disregarded as it was an atypical year due to COVID-19;
  - The maximum number of stores in a country per year was set at 13 to avoid extra risk;
  - The amount considered available of cash to invest was calculated by matching the maximum capex with the debt minimum cash cover covenant;
  - The Capex per store for each year was found by dividing total store network expansion capex by gross store opening (As this figure should be independent from store closures); The used value was an average of the past.

- Key Countries:
  - France:
    - Ramp-up period is lowest in France, so openings were done in 2024, 2025 and 2026;
    - The target was 251 stores by exit.
  - Germany:
    - Take advantage of the past positive momentum to resume the opening strategy in 2021. Considered a high potential country, hence the G.L. was tripled so that 25 stores are opened between 2021 and 2023
  - USA:
    - Following the acquisition of Modani, MdM has a strong position to tap into the US market. Hence, it was the most relevant country in store opening terms with 29 stores.
  - Spain:
    - Represents 19% of all openings equaling the USA. This is due to the fact that te market can still be explored to solid expected results, with quick ramp-up.

EXIT and RETURNS – POTENTIAL BUYERS OVERVIEW

Prior connections to MdM as well as possible strategical advantages make MDM particular interesting to three potential acquirer

Potential Buyer	Geographical Focus	AUM	Description	Fit
KKR	▪ Global investment focus with 20 Offices on four continents (North America, Europe, Asia and Australia).[1)] ▪ Investments distributed equally between locations.	approx. $234 Bn	One of the world's leading multi-asset alternative investment firm based in NYC with a core industry in . Consumer & Retail. KKR has strong experience in the furniture industry through investments into Sealy international, the world's largest manufacturer of bedding products in 2005. Furthermore, KKR invested along Artá Capital into the Spanish furniture panel manufacturer Alvic in 2019. [2), 3)] Finally, the firm is committed to ESG compliant firms through its Green Portfolio program.	
THE CARLYLE GROUP GLOBAL ALTERNATIVE ASSET MANAGEMENT	▪ 30 offices on 6 continents. ▪ Investments are mainly done in Amercia (74%) followed by APAC (17%) and Europe (9%). [4)]	approx. $230 Bn	One of the world's largest invesment firms. Typically on the lookout for long-term investments. Already has contact to furniture and decoration industry through investments in Tok and Stok (Brazil, 2012) and creation of a high-end interior design group together with Investindustrial in 2018 consisting out of B&B Italia Group, Flos and Louis Poulsen. [5), 6)]	
3i	▪ 7 offices on three continents in North America, Europe and Asia (India) ▪ Typical core investment markets are Northern Europe, the UK and North America. [7)]	approx. $19,3 Bn £10,5 Bn in Private Equity	British investment company with focus on Private Equity and Infrastructure. Leading international investor spezialized in mid-market transactions, deal values with EVs up to €500 Mn. Took MdM's competitor BoConcept (280 stores in 65 markets) private in 2016. Additional investments in the furniture industry are Garten Haus GmbH and LUQOM Group. Even though total size of MdM is too big for 3i alone, MdM could present an interesting target for 3i within a joint investment with another fund because of their industry and market expertise. 8)	

Notes: 1) Source: KKR, 2020. ; 2) Source: Furniture world, 2005. ; 3) Source: S&P Global Market Intelligence, 2019. ; 4) Source: Carlyle, 2020. ; 5) Source: Carlyle. 2018. ; 6) Source: Carlyle, 2012. ; 7) Source: 3i, 2020., "Business at glance"; 8) Source: 3i 2020, "Portfolio".

COMPANY OVERVIEW – SWOT ANALYSIS

To remain competitive, MdM has to continuously optimize its value chain and keep growing both organically and trough acquisitons

MAISONS DU MONDE

SWOT Analysis

Strengths

- Unique in-house designs and strong brand are key differentiators.
- Ability to buy bulk quantities at lower prices because of a long lasting relationship with suppliers (>8 yrs).
- Active customer base and participatory presence on social networks.
- CSR commitment enhacing the group's reputation.

Weaknesses

- Several critics about delays in product delivery and about customer support regarding returns.
- Rising raw material cost causes increase in prices of products.
- Brand penetration worldwide (Asia & Africa) is small.

Opportunities

- Global expansion would help increasing MdM market share.
- Further integration of production systems within the EU would increase the overall level of furniture quality.
- Enhance its data-driven inventory management to improve working capital needs and reduce lead time.

Threats

- Changing consumer buying behaviour from online channel could be a threat to the existing physical infrastructure of the supply chain.
- Customers have a higher bargaining power and low switching cost (low loyalty).
- Competitive environment in terms of prices and availability with growing competition from Asia.

Action Plan

Increase Brand Awareness

- Use influencers and public relations to further improve brand preception near clients.
- Bet on wider media channels, to reach a broader audience and engage customers.

Marketing Spending as % of sales

Personalized Customer Experience

- 1st - Data collection: through platforms such as Google Cloud large consumer information can be acquired.
- 2nd - Audience Analysis: use big data techniques to segmentate and predict buying patterns of each customer class.
- 3rd – Personalized offers: recommend the right products and increase the probability cross selling.

Tailored International Approach

- "One-size-fits-all" strategy does not work for a international company like MdM.
- The group needs to separately assess each marketplace trends and build a marketing strategy in accordance with that region customers preferences.

Upgraded CSR ambition

- Reduce the global carbon emissions by 25% by 2024.
- Reinforce the transparency of the groups supply chain.
- Offer a wider range of sustainable products.

INDIVIDUAL SLIDE – The relevance of an omnichannel approach to retail

The embracement of an omnichannel approach is a requirement to survive and thrive in nowadays' retail industry landscape.

Companies operating inside retail industries have been severely impacted by the motto "adapt or die". In fact, even though product differentiation and product innovation tend to not be a critical aspect for players that merely purchase and distribute, the technological novelties that keep arriving are constantly changing consumer's habits and minds by shifting their needs, what they value and how they want it. Therefore, these companies need to constantly adapt to ensure continued growth while sustaining past competitive advantages and developing new ones. Hence, the development and diffusion of e-Commerce is a significant game-changer as not only does it allow better serving of current customers but also eases the acquisition of large, new segments. Furthermore, the online business perfectly complements the existing stores of retail chains by being a quick access platform for customers to search and study the company's products. In a complementary form, the stores themselves also bring positive spill-over effects to e-Commerce since on one hand, they allow for "search and buy online, collect in store" revenue, and on another hand, they act as brand awareness developers for new customers to search online. Thus, this omnichannel strategy creates a positive cycle of mutual enhancement between both revenue streams, while making it difficult for pure-store or pure-online players to compete. Finally, other forms of revolutionizing technology are continuously surfacing, namely in removing queues in stores or in using Augmented Reality to let customers visualize products in a livelier manner which increase pressure even further for retailers to ensure survival and growth.

This is the story of Maisons du Monde. A French furniture and decoration player operating through an omnichannel approach trying to create relevant differences and competitive advantages to compete with strong international brands such as IKEA. The key area of this Thesis is in developing a business model that is simultaneously robust and bold to put the company in a position of a strong growth prospect both inside and outside European frontiers. In fact, not only is the embracement of technology an important matter in this industry but also the continued expansion through new stores, new locations and new customer/product segments.

Finally, as a Private Equity fund, the major aspects to consider about Maisons du Monde are, on the bright side, the robust financials, e.g. EBITDA and Cash flow generation potential and the quality, sustainability and verified nature of the firm's Business model. On a potentially negative side it is crucial to understand the impact of COVID-19 in the industry and in consumer's minds as the aftermath of this pandemic, although beneficial for furniture and decoration companies, will likely not be sustainable. However, even considering the pressures of uncertainty this is an industry in which stable growth rates can be expected as it attends to a need that will probably never disappear.